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Message Text

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12
ACTION EA-14

INFO OCT-01 ISO-00 AID-20 CIAE-00 DODE-00 PM-07 H-03

INR-11 L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03

SS-20 USIA-15 IO-14 COME-00 EB-11 FRB-03 TRSE-00

XMB-07 OPIC-12 CIEP-03 LAB-06 SIL-01 OMB-01 AGR-20

DRC-01 /189 W
---------- 104352
R 300240Z AUG 74
FM AMEMBASSY MANILA
TO SECSTATE WASHDC 6461
INFO AMEMBASSY BANGKOK
AMEMBASSY KUALA LUMPUR
AMEMBASSY SINGAPORE
AMEMBASSY JAKARTA
AMEMBASSY TOKYO
CINCPAC

S E C R E T MANILA 10421

E O 11652: GDS
TAGS: PFOR, PINS, EGEN, RP
SUBJ: QUARTERLY ASSESSMENT FOR THE PHILIPPINES

1. SUMMARY. DURING QUARTER UNDER REVIEW, PHILIPPINE ATTENTION HAS CONTINUED TO CENTER ON MUSLIM INSURGENCY IN SOUTH AND ON ECONOMIC PROBLEMS. LUZON HAD YET ANOTHER MAJOR FLOOD IN AUGUST BUT DAMAGE DOES NOT APPEAR SEVERE. DECREASING INFLATION AND INCREASING PAYMENTS DEFICITS ARE IN PROSPECT. RELATIONS WITH THE UNITED STATES CONTINUE SMOOTH, ALTHOUGH TINGED WITH MINOR TENSIONS DURING NEGOTIATION OF CIVIL AIR AGREEMENT. EXPIRATION OF LAUREL-LANGLEY AGREEMENT PASSED QUIETLY, BUT U.S.-PHILIPPINE ECONOMIC AND MILITARY NEGOTIATIONS HAVE NOT PROGRESSED. END SUMMARY.

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2. MUSLIM INSURGENCY TOOK TURN FOR WORSE DURING ISLAMIC

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FOREIGN MINISTERS MEETING WHICH CALLED FOR "POLITICAL SOLUTION" OF PROBLEM, AND HAS CONTINUED AT HIGH LEVEL SINCE THEN. GUERRILLA-TYPE WARFARE HAS SPREAD THROUGHOUT SULUS AND SIGNIFICANT AREAS OF MINDANAO, CAUSING HIGH RATE OF CASUALTIES AMONG PHILIPPINE ARMED FORCES AND CIVILIAN POPULATION. FACED WITH APPARENTLY HOPELESS MILITARY SITUATION, MARCOS SEEMS PREPARED TO NEGOTIATE WITH MUSLIM LEADERSHIP FOR SOME SORT OF "AUTONOMY" PROVIDED THERE IS NO DEROGATION FROM PHILIPPINE SOVEREIGNTY. INDONESIANS ARE ATTEMPTING ARRANGE NEGOTIATIONS ON THEIR TERRITORY, BUT ULTIMATELY A SOLUTION OF THE MUSLIM PROBLEM WILL ALSO REQUIRE COOPERATION FROM MALAYSIAN AUTHORITIES.

3. ECONOMIC PROBLEMS CONTINUE TO DEMAND THE ATTENTION OF PHILIPPINE POLICY MAKERS. RISE IN CONSUMER PRICES NOW APPEARS TO BE SLOWING, WITH EFFECT RECENTLY BLUNTED BY WAGE INCREASES, COMMODITY SUBSIDIES, AND A CAMPAIGN TO INCREASE FOOD PRODUCTION. THE BALANCE OF PAYMENTS DETERIORATED DURING THE QUARTER AS EXPORT PRICES SOFTENED AND IMPORT COST ROSE. PRESENT TRENDS INDICATE THE BALANCE OF PAYMENTS WILL BE IN THE RED FOR THE REST OF 1974. GOVERNMENT EXPENDITURES ON INFRASTRUCTURE HAVE RISEN SHARPLY. THE GOVERNMENT IS ALSO ENCOURAGING THE PRIVATE SECTOR TO INCREASE ITS INVESTMENT RATE. HOWEVER, THERE HAVE BEEN SOME DISTURBING STEPS BY GOVERNMENT TOWARD INVOLVEMENT IN OR MORE EXTENSIVE CONTROL OVER DOMESTIC AND FOREIGN TRADE. WHILE SUCH INTERVENTION HAS BEEN IN PART DUE TO NON-PAYMENT OF DEBTS TO NATIONAL AGENCIES OR TO COMMODITY SPECULATION, IT HAS ADDED TO DISCOMFORTS OF FILIPINO AND FOREIGN BUSINESSMEN ALIKE.

4. GOVERNMENT CONTINUES TO SEEK FOREIGN INVESTMENT AND PRESIDENT MARCOS MADE MAJOR SPEECH ON AUGUST 16 TO ATTEMPT TO ASSURE DOMESTIC TRADERS, MAY OF CHINESE ORIGIN, AND FOREIGN FIRMS THAT GOVERNMENT STILL COMMITTED TO PRIVATE ENTERPRISE AND THAT IT STILL WELCOMES FOREIGN INVESTMENT. DESPITE PRESIDENT'S ASSURANCES, MANY IN U.S. BUSINESS COMMUNITY REMAIN SOMEWHAT JITTERY AND UNCOMFORTABLE WITHOUT A TRADE AND INVESTMENT AGREEMENT BETWEEN THE PHILIPPINES AND THE U.S. FIRST ROUND OF NEGOTAITIONS ON NEW AGREEMENT BY
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WAHSINGTON-BASED TEAM SERVED TO IDENTIFY ISSUES AT STAKE, BUT ALSO MADE CLEAR THAT EVENTUAL PROGRESS WILL DEPEND ON U.S. CONGRESSIONAL PASSAGE OF TRADE REFORM ACT.

5. PRESIDENT NIXON'S RESIGNATION HAS NOT HAD NOTICEABLE EFFECT ON RELATIONS HERE. PHILIPPINE LEADERSHIP HAS TAKEN PRAGMETIC APPROACH IN RELATIONS WITH ADMINISTRATIONM THEY MAY, HOWEVER, BE COUNTED ON TO TRY TO ESTABLISH EARLY

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SPECIAL RELATIONSHIP WITH PRESIDENT FORD AND NEW TEAM.

6. ON CHINA FRONT, PRILIPPINE ACTIVITY HAS BEEN CAUTIOUS. ALTHOUGH ADVANCE PARTY FOR MRS. MARCOS'S "CULTURAL" TRIP TO PEKING HAS VISITED MAINLAND, SHE HAS NOW POSTPONED HER TRIP. THIS MAY REFLECT CAUTION INDUCED BY TAIPEI, WHICH CONTINUES TO THREATEN ROUGH REPRISALS IF THE PHILIPPINES ESTABLISHED DIPLOMATIC RELATIONS WITH PEKING. ON THE OTHER HAND, THE GOP ITSELF MAY BE HAVING SECOND THOUGHTS ABOUT THE SECURITY IMPLICATIONS OF EARLY RAPPROCHEMENT WITH CHINA.

7. AS QUARTER ENDS, CENTRAL LUZON IS RECOVERING FROM SEASON'S FLOODS WHICH DAMAGED HOMES, CROPS, AND INFRASTRUCTURE. GOVERNMENT RESPONSE WAS PROMPT AND WELL-ARTICULATED, ASSISTED MEASURABLY BY U.S. MILITARY AND CIVILIAN AGENCIES. CROP DAMAGE WAS LIMITED, BUT MAY PUT FURTHER PRESSURE ON PHILIPPINE FOOD RESOURCES, ALTHOUGH IT IS TOO EARLY TO TELL.

8. AS RESULT WASHINGTON GUIDANCE, THIS QUARTERLY ASSESSMENT HAS BEEN CONSIDERABLY FORESHORTENED IN COMPARISON WITH ITS TWO PREDECESSORS. AS RESULT, COVERAGE IS LESS COMPENDIOUS, AND TOUCHES ONLY UPON HIGHLIGHTS WHICH MAY BE OF INTEREST TO TOP POLICY OFFICIALS IN DEPARTMENT.
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